MARKET & ECONOMIC SUMMARY

Volume 8, Issue 3 – July 2020

MARKET SUMMARY

Second Quarter 2020

S&P/TSX Composite TR

Q2	YTD	1 year
↑17.0%	↓7.5%	↓2.2%

S&P 500 TR (USD)

Q2	YTD	1 year
↑**20.5%**	↓3.1%	↑7.5%

MSCI EAFE GR (C$)

Q2	YTD	1 year
↑10.1%	↓6.6%	↓0.7%

ICE BofAML Canada Brd Mkt TR

Q2	YTD	1 year
↑ 5.8%	↑7.5%	↑ 7.8%

SECOND QUARTER HIGHLIGHTS

- S&P/TSX Composite hits 15,980.10 on June 8th, up 43% from March low
- S&P 500 up 47% from March low, reaching 3,233.13 on June 8th
- Canadian dollar hits $0.7484 USD on June 8th, up 9.8% from March low
- WTI Oil price goes negative on April 20th closing at -$37.63 USD
- Bank of Canada maintains overnight at 0.25% in Q2

SUMMARY

While the first quarter of 2020 was dominated by anxiety surrounding the initial outbreak of COVID-19 and the ensuing lockdowns and capital market declines, the second quarter demonstrated a remarkable bounce back in those markets – even with a resurgence of the virus in the U.S. and renewed lockdown measures.

The S&P 500 Index, a broad measure of U.S. equities, had its best quarter in over 20 years, gaining 20.5% (in U.S. dollars), while the Canadian S&P/TSX Composite Index 17% (in Canadian dollars) in the three months ending June 30. This was quite a recovery from the sharp declines by the end of Q1, bringing year-to-date returns to -3.1% (S&P 500) and -7.5% (S&P/TSX). Bond prices rose on yields declines as both the Federal Reserve and Bank of Canada indicated rates would remain low for a lengthy period.

Energy prices rose as the economy began slowly re-opening and production cuts trimmed inventory, but not before prices fell below zero for the first time in history on April 20, ending the day at -US$37.63. This served as a microcosm of the quarter. While virus data, economic numbers and other headlines seemed bearish, markets remained optimistic and continued to climb.

Much of the market's enthusiasm has been attributed to government and central bank intervention designed to support global economies. In particular, the U.S. Federal Reserve's introduction of quantitative easing measures, emergency lending and purchases of corporate bonds and exchange-traded funds are believed to have played a vital part in this rise. The Bank of Canada matched the Fed's willingness to purchase corporate bonds to assist credit markets, while indicating it believes the economy will return to growth in the third quarter. The Fed said it expects 5% GDP growth in 2021, and as for the support it has been providing to the system, Fed Chairman Jay Powell said the agency was, "not out of ammunition by a long shot."

Headlines concerning vaccine progress and phased economic re-openings also seemed to support market moves to the upside. Promising vaccine data from various companies continued to be announced, while in early May the U.S. Food and Drug Administration granted emergency use authorization for Gilead Sciences' antiviral drug remdesivir as a treatment for COVID-19 patients.

Investors also weighed more negative developments as the quarter came to a close, but these had little impact on the markets' recovery. These included escalating tensions between China and both the U.S. and India, rising infections in 37 U.S. states (with 50 per cent of states halting or rolling back their reopening plans), and data showing 31.5 million Americans collecting unemployment cheques as of mid-June. The Fed said it expects U.S. gross domestic product (GDP) to shrink by 6.5% in 2020, and the International Monetary Fund (IMF) expects global economic output to contract 4.9%. Ratings agency Fitch Ratings, meanwhile, downgraded Canada's credit rating to AA+ from AAA to reflect the deterioration of public finances due to COVID-19.

If anything, the last two quarters have proven just how important it is to stick with a long-term, diversified plan to withstand market shocks. It would have been almost impossible to predict that shortly following the close of the first quarter, the S&P 500 would have the best 50-day period in its history and the Nasdaq (a stock exchange that includes the world's primary technology and biotech giants) would reach new all-time highs. Had an investor chosen to change course and attempt to time the market, they likely would have missed out on this rapid recovery.

"Markets have a consistent ability to identify positive news within the negative headlines and sentiment". – Cy Korun

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STRATEGIC NOTES

With a relatively robust rebound in equity markets in Q2, a question we frequently get is "have the markets recovered too quickly?". In the US, a record number of COVID 19 cases continue to be reported while many states roll back re-opening of businesses. In Canada, we saw the government's financial stimulus response to the pandemic create an unprecedented current account deficit of $343 billion, a record unemployment rate of 13.7% in the month of May and a downgrade of our credit rating by Fitch Ratings. So, it is not surprising investors may be worried about equity market performance in the near term.

However, markets have an ability to recognize both positive and negative news including strong job creation in June and economic growth expectations as early as this quarter. While we acknowledge there is potential for higher than normal volatility over the next few quarters, you should never build your strategic planning around short-term uncertainty. Stick to your plan, position your portfolio to be consistent with your time horizon and financial objectives, and always remember that markets are unpredictable in the short-term but trend upward over the long-term. This remains the most effective way to successfully build your wealth and achieve your goals.

Cy Korun, CFA, CFP
President, Eastport Private Investment Counsel

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